



Proactive Investors Commodity Watch

Nov 1st 2013

Zinc is fourth most used metal: ASX "zinc plays"

Zinc is poised to move out of the shadows, with demand set to ramp-up as China continues to drive growth.

Zinc is already the fourth most used global metal, but where the China story plays out is that the country uses around a quarter of the quantity of zinc used by Western brands.

How this breaks down is that China galvanises 4% of the steel it produces, far less than the 18% average used in the Western World.

Inevitably, China will increase this amount when they target export markets and strive to meet Western standards.

The usage of zinc has around half for galvanising metals used widely in the construction, roofing and vehicle industries, followed by brass and bronze (17%), alloying (17%), zinc semi-manufactures (6%), chemicals (6%) and the remaining four per cent in various sectors.

China's level of vehicle ownership relative to its population is currently less than the United States' during the 1920's China's growth has just started.

China used close to 5500 tonnes of zinc in 2011, which is four times as much as a decade ago, and a staggering ten times more than twenty years ago.

Zinc supply shortage looms

Zinc takes another interesting turn when evaluating supply verse demand, which of course has a direct correlation with price.

There are looming mine closures, with around 11% of supply, or 1.7 million tonnes, is set to try up in the next four years as mines close, which includes Century (500,000t), Brunswick (200,000t just closed), Lisheen (167,000t), Skorpion (162,000t) and Perserverence (128,000 closing now) - which will cause a fall in production.

Global mine production in 2012 was around 15 million tonnes.

With supply constraints and increasing demand, this is likely to drive the price of zinc higher from the current US\$1925 a tonne, and with a rapid decline in mined grades, this puts additional pressure on prices.

The current price is up from US\$1,820 a month ago.

Adding to potential supply problems, the next generation of zinc miners are at an early, pre-funding stage and are mostly located in countries with high sovereign risk; however, they generally benefit from economies of scale, and they will derive the biggest share of their income from zinc.

Is zinc an opportunity?

The fundamentals of China needing far increased zinc levels in the future is one driver to a potential re-rating in the metal, along with a back-drop of constant and growing demand, while at the same time the majors are low on zinc, with

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mid-tiers not exploring.

Add to the mix limited new discoveries in the past decade.

It must be remembered that zinc is not just a China story, with some forecasters having global demand for the metal doubling within the next few decades.

Some of the data courtesy of Ironbark Zinc.

ASX "zinc plays"

There are a few pure zinc plays, but one Australian Stock Exchange listed company highly-leveraged to the zinc price is Ironbark Zinc (ASX: IBG).

Ironbark has a market cap. of around \$22 million (cash of \$4 million), and wholly-owns the world class Citronen zinc and base metal project that is located in Northern Greenland.

The project area contains one of the world's largest undeveloped zinc resource and currently hosts a JORC compliant resource of 71 million tonnes at 5.7% of zinc, and lead, containing 13 billion pounds of zinc and lead.

Citronen also has considerable exploration potential in addition to the existing resource.

Blackthorn Resources (ASX: BTR) and Glencore Xstrata (LON:GLEN) this month shipped the first zinc from Perkoa in Burkina Faso, which included 12,175 wet metric tonnes of zinc concentrate.

Blackthorn said at the time that it is looking to forward to continuing ramp up at the mine.

MacPhersons Resources' (ASX: MRP) has just kicked off a diamond drilling program targeting deeper mineralisation at its wholly-owned Nimbus silver-zinc-gold project in Western Australia.

MacPhersons' Nimbus is strategically located in an infrastructure-rich region being just ten kilometres east of Kalgoorlie's superpit gold mine.

Nimbus currently hosts an Ore Reserve of 1.126 million tonnes at 297 grams per tonne, or 10.8 million ounces silver equivalent, and a Resource of 4.9 million tonnes at 149g/t, or 23.4 million ounces silver equivalent.

October zinc action in exploration on the ASX

Matsa Resources (ASX:MAT) this month intersected highly anomalous zinc grading up to 8.04% in carbonaceous shales at the RC50 prospect of its Killaloe joint venture project in Western Australia.

Castle Minerals (ASX:CDT) identified 13 high priority electromagnetic targets thought to represent gold-zinc sulphide mineralisation at its Bundi target in Ghana.

Energia Minerals (ASX: EMX) has identified a high-grade zone of zinc-lead mineralisation up to 6 metres at 14.83% zinc and 3.53% lead from recently recovered historical drilling data at its Gorno zinc-lead project in northern Italy.

Mithril Resources (ASX: MTH) received final assay results from recently completed reverse circulation drilling covering six targets at its East Arunta project, Northern Territory, where drilling intersected zones of copper or copperzinc anomalism at all but the Coles Hill North target.

Note: October companies used for illustrative purposes.



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